

Message Text

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PAGE 01 HELSIN 01232 061448Z

51

ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 AID-05 CIAE-00 COME-00 EB-07

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FM AMEMBASSY HELSINKI

TO SECSTATE WASHDC 8736

INFO AMEMBASSY COPENHAGEN

AMEMBASSY OSLO

AMEMBASSY STOCKHOLM

USMISSION GENEVA

USMISSION OECD PARIS

UNCLAS HELSINKI 1232

E.O. 11652: N/A

TAGS EFIN, EALR, FI

SUBJECT: FINALND GRANTED ACCESS TO IMF OIL FUND

REF: HELSINKI 570

1. SUMMARY: BANK OF FINLAND HAS ANNOUNCED AGREEMENT WITH IMF ON USE OF FUND RESOURCES, INCLUDING SPECIAL OIL FACILITY, TO SUPPORT FINNISH BALANCE OF PAYMENTS IMPROVEMENT PROGRAM, WHICH HAS NOT YET HAD ANY SUBSTANTIAL EFFECT. END SUMMARY.

2. BANK OF FINLAND RELEASED ON JUNE 5 INFORMATION ABOUT RECENT DISCUSSIONS WITH IMF ON BALANCE OF PAYMENTS CORRECTION PROGRAM, WHICH RESULTED IN AGREEMENT ON FINNISH DRAWING FROM IMF RESOURCES. BANK HAD INTENDED KEEP INFORMATION WITHIN GOVERNMENT FOR AWHILE, BUT WAS FORCED TO GO PUBLIC BY VAGUE "HELSINGIN SAMONAT"

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PAGE 02 HELSIN 01232 061448Z

ARTICLE DISCUSSING SERIOUS ECONOMIC SITUATION, AND

ALLUDING TO FINNISH "HOPES" TO USE IMF SPECIAL OIL FACILITY. BANK IS UPSET ABOUT "PREMATURE" RELEASE OF INFORMATION BECAUSE OF PSYCHOLOGICAL IMPACT.

3. BANK DIRECTOR ARANKO TOLD EMBOFF THAT AFTER IMF REVIEW OF ECONOMIC SITUATION AND "9-POINT" PROGRAM, FINNS AGREE (A) TO CONSULT FUND PRIOR TO TAKING ANY NEW MEASURES OR EXTENDING OR TIGHTENING CURRENT ONES (IMPORT DEPOSIT LAW EXPIRES MARCH 24, 1976); (B) TO MAINTAIN CURRENT VERY TIGHT MONEY POLICY (WHICH IS ALSO ESSENTIAL TO MAKE IMPORT DEPOSIT SYSTEM EFFECTIVE), AND (C) TO MAINTAIN CURRENT METHOD OF VALUING THE FINNMARK IN RELATION TO WEIGHTED AVERAGE OF MAJOR TRADING CURRENCIES. IN EFFECT LATTER PROMISE RULES OUT FOR AT LEAST ONE YEAR DEVALUATION WITHOUT PRIOR CONSULTATION WITH THE FUND, ACCORDING TO ARANKO. FINNSHAD ALREADY FIRMLY DECIDED THAT DEVALUATION WAS NEITHER ECONOMICALLY NOR POLITICALLY FEASIBLE.

4. IMF HAS AGREED TO ALLOW FINNS, AFTER DRAWING THEIR GOLD TRANCHE POSITION (ACTION HAS BEEN INITIATED AND WILL BE COMPLETED NEXT WEEK ACCORDING TO ARANKO), TO DRAW 71.25 MILLION SDR (ABOUT FMK 315 MILLION) FROM SPECIAL OIL FACILITY. FINNS EXPECT TO START USING THESE DRAWINGS AS SOON AS PAPERWORK COMPLETED. IN ADDITION, IMF HAS FORMALLY AUTHORIZED FINLAND TO DRAW 95 MILLION SDR (FMK 410 MILLION) FROM ITS CREDIT TRANCHES (THIS WOULD BE VIRTUALLY ALL OF THE FIRST AND SECOND CREDIT TRANCHE, ACCORDING TO ARANKO, WHO ALSO STATED THAT HE DID NOT FEEL THESE DRAWINGS WOULD BE NECESSARY WITHIN THE ONE YEAR AUTHORIZAITION PERIOD). ARANKO ALSO NOTED THAT FINLAND RETAINS OPTION TO USE THE \$500 MILLION IN STAND-BY CREDITS ARRANGED IN 1974 WITH A COMMERCIAL BANK CONSORTIUM, AND MAY USE THESE SIMULTANEOUSLY WITH, OR AFTER THE 71.25 MILLION SDR LOAN. MAJOR ARGUMENTS AGAINST USING COMMERCIAL CREDITS WERE COST AND PSYCHOLOGICAL IMPACT, SINCE BANK HAD INTENDED OPTION AS REASSURANCE AGAINST SHORTAGE OF HARD CURRENCIES. THE IMPACT, PARTICULARLY ON POTENTIAL FOREIGN LENDERS, OF THE IMF DRAWINGS

UNCLASSIFIED

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PAGE 03 HELSIN 01232 061448Z

SHOULD MAKE MOOT THE PSYCHOLOGICAL IMPACT ARGUMENT AGAINST USING COMMERCIAL CREDITS.

5. FOREIGN TRADE MINISTER JERMU LAINE HAS BEEN QUOTED AS SAYING THAT IMPORT DEPOSIT SYSTEM CANNOT BE SUDDENLY TERMINATED, BUT IT APPEARS HE HAD IN MIND THE DANGER OF RELEASING SIX MONTHS OF DEPOSITIS SIMULTANEOUSLY. THE CURRENT LAW AUTHORIZES THE

COLLECTION OF DEPOSITS FOR ONE YEAR (UNTIL MARCH 24, 1976), THUS THE FINAL DEPOSITS WOULD BE RETURNED PRIOR TO SEPTEMBER 24, 1976, ASSUMING THE LAW IS NOT EXTENDED.

6. PRELIMINARY TRADE FIGURES FOR THE FIRST FOUR MONTHS OF 1975 SHOW A FMK 2.78 BILLION DEFICIT, ALMOST DOUBLE THE FMK 1.44 BILLION DEFICIT OF JANUARY-APRIL 1974. WHILE THE INCREASE BY VALUE OF IMPORTS WAS THE LOWEST IN MANY MONTHS (7 PERCENT), THE VALUE OF EXPORTS DECLINED FOR THE SECOND CONSECUTIVE MONTH (-2.0 PERCENT). HOWEVER, SINCE THE IMPORT DEPOSIT SYSTEM CAN BE EFFECTIVE CHIEFLY BY CUTTING IMPORTER LIQUIDITY, IT IS BELIEVED THAT IMPACT ONLY JUST STARTED TO SHOW IN APRIL TRADE FIGURES. OTHER DATA SHOW CONVERTIBLE RESERVES OF THE BANK OF FINLAND DECLINED TO 998 MILLION FMK AS OF MAY 31, 1975, COMPARED TO 1,802 MILLION ON MAY 31, 1974 AND 1,722 MILLION ON DECEMBER 31, 1974. IN THE FIRST THREE MONTHS OF 1975, LONG TERM DEBT INCREASED BY 896 MILLION FMKS INDICATING THAT THE TRADE DEFICITS WERE FINANCED ROUGHLY TWENTY-FIVE PERCENT BY RESERVES, THIRTY-THREE PERCENT BY LONG-TERM CAPITAL IMPORTS AND PROBABLY THIRTY-THREE PERCENT BY SHORT-TERM CAPITAL MOVEMENTS, WITH THE REST (UNDER 10 PERCENT) BEING CHANGES ON THE BILATERAL TRADE ACCOUNTS. THE UNHEALTHY INCREASE IN SHORT-TERM CAPITAL IMPORTS WILL PROBABLY INCREASE, AS SUPPLIER CREDITS ARE THE MAJOR "LOOPHOLE" IN THE IMPORT DEPOSIT SCHEME.
HOUSTON

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